**Economics Unit 1 Exam Semester 1 2019**

**Marking Guide**

**Section 1 (24 marks)**

1 C

2 B

3 A

4 B

5 C

6 D

7 D

8 C

9 A

10 D

11 D

12 C

13 C

14 B

15 B

16 C

17 D

18 B

19 A

20 B

21 A

22 C

23 D

24 A

**Section 2 (36 marks)**

**Question 25 (12 marks)**

|  |  |
| --- | --- |
| a. i D/S diagram – D & S curves correctly drawn & labelled showing equilibrium at $4 & 4 million  ii. Producers’ revenue = $16 million | 1-2 marks  1 mark |
| b. There has been a decrease in demand  Caused by a change in preferences (consumers react negatively to the needle scare)  Correctly drawn diagram showing the decrease in demand – equilibrium price & qty both decreasing | 1 mark  1 mark  1-2 marks |
| c. There will be a decrease in supply – the S curve will shift left  This will cause equilibrium price to rise & qty to fall  Diagram showing decrease in supply  Change in producer revenue is uncertain – it depends on price elasticity of demand – it may increase if D is inelastic or decrease if D is elastic | 1 mark  1 mark  1 mark  1-2 marks |

**Question 26 (12 marks)**

|  |  |
| --- | --- |
| a. Price elasticity of demand measures the responsiveness of qty demanded to a change in price | 1 mark |
| b. P1 = 1000; P2 = $1100; Q1 = 9200; Q2 = 8000  Simple formula: change in Q/Q x P/change in P  1200/9200 x 1000/100 = 1.3  Midpoint formula: 1200/8600 x 1050/100 = 1.465  Note: can use either method | 1-2 marks |
| c. i. Missing values: $9.2 million; $8.8 million (need both)  ii. $1000  iii. Between $800 - $1000: price **inelastic**  Between $1000 - $1200: price **elastic**  When price rises from $800 to $1000, total revenue rises which means that D is inelastic; when price rises from $1000 to $1200, total revenue falls which means that D is elastic | 1 mark  1 mark  1 mark  1 mark  1-2 marks |
| d. Income elasticity measures the responsiveness of demand to a change in income  Income elasticity of demand for smartphones would be **positive**.  An increase in consumer income is likely to lead to an increase in demand for smartphones because they are a normal (or superior) good. | 1 mark  1 mark  1 mark |

**Question 27 (12 marks)**

|  |  |
| --- | --- |
| a. Define each term:  consumer surplus is the difference between the maximum price a consumer is willing to pay & the actual price they do pay  producer surplus is the difference between the minimum price a producer is willing to receive & the actual price they do receive | 1 mark  1 mark |
| b. Correctly labelled diagram showing Q < Qe & decrease in total surplus – DWL (see diagram below)  Explanation stating that when Q < Qe, there is a decrease in both consumer & producer surplus. | 1-2 marks  1 mark |
| c. i. Draw a new Supply curve shifting to the right – it shifts down vertically by $10,000  New equilibrium price = $62.500  New equilibrium quantity = 45,000  ii. Cost of subsidy = $10,000 x 45,000 = $450 million | 1 mark  1 mark  1 mark  1 mark |
| d. The subsidy will increase consumer surplus – consumers buy a greater quantity at a lower price  The subsidy will increase producer surplus – producers sell a greater quantity at a higher price ($62,500 + $10,000 sub)  The subsidy will actually **decrease** market efficiency because the cost of the subsidy is greater than the combined increase in CS & PS. | 1 mark  1 mark  1 mark |

****

**SECTION 3 (20 marks) – Answer one question**

**Question 28** **(20 marks)**

(a) Discuss the characteristics of an imperfect market and describe the various barriers to entry. Using a model, explain why non-competitive markets result in market failure.

(10 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Explains what is meant by a non-competitive market and identifies market forms that are non-competitive. | 1 |
| * Describes the characteristics of non-competitive markets with respect to:   + Number of firms   + Market power   + Product differentiation | 1 - 2 |
| * Define the term barrier to entry. | 1 |
| * Identifies and describes various barriers to entry including:   + Government regulation and patents   + Technology barriers   + Start-up costs   + Licensing restrictions | 1 - 2 |
| * Identifies and explains how the concentration of market power is the failure associated with imperfect markets. | 1 - 2 |
| **Subtotal** | **8** |
| Diagram(s) | |
| * Draws correct and fully labelled diagram and explain how imperfect markets result in market failure. | 2 |
| **Subtotal** | **2** |
| **Total** | **10** |

(b) Explain the role of the Australian Competition and Consumer Commission (ACCC). Using examples, discuss how effective the ACCC has been in dealing with two (2) different types of anti-competitive behaviour. (10 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Identifies the role of the ACCC i.e. to protect, strengthen and supplement the way competition works in Australian markets and industries to improve the efficiency of the economy and increase the welfare of Australians. | 1 |
| * Describes the various roles of the ACCC:   + Investigate allegations of anti-competitive behaviour.   + Pursue incidences of anti-competitive behaviour in the courts.   + Education of firms regarding anti-competitive behaviour. | 1 |
| * Using examples outlines two different types of anti-competitive behaviour according to the following:   + Identifies and defines the anti-competitive behaviour.   + Identifies and explains an example of the anti-competitive behaviour.   + Explains how this was dealt with by the ACCC.   + Makes a judgement of effectiveness of the intervention. | 2 x 4 |
| **Subtotal** | **10** |
| **Total** | **10** |

**Question 29** **(20 marks)**

*‘In Australia the price elasticity of supply for beef ranges from 0.4 to 0.6.’*

(a) Discuss the concept of price elasticity of supply. With reference to the quote, differentiate between goods that are price elastic and price inelastic in supply. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Defines the term price elasticity of supply i.e. the responsiveness in the quantity demanded to a change in price. | 1 |
| * Explains how Pes is measured and explains the importance of the supply elasticity coefficient. | 2 |
| * Discusses the difference between elastic and inelastic supply.   NB – for full marks here students should refer to the quote. | 2 |
| * Draws an appropriate diagram demonstrating elastic and inelastic supply. | 1 |
| **Total** | **6** |

(b) Identify and explain three factors which might influence the price elasticity of supply for beef. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Identifies and explains **three factors** that influence the price elasticity of supply for beef including either: * Nature of the industry. * Excess capacity * Ability to store product * Time   Each factor has 2 marks available. | 3 x 2  (6 marks) |
| **Total** | **6** |

1. The Australian Government is keen to help drought affected beef producers through the payment of a subsidy. Using a model, evaluate the efficiency of this action in the long term. (8 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explanation | |
| * Defines the term subsidy. | 1 |
| * Identifies the justification that government may have for introducing a surplus in the short term. | 1 |
| * Explains how a subsidy affects consumer and producer surplus. | 2 |
| * Discusses the impact that a subsidy will have on the total surplus of society. | 1 |
| * Explains the impact that the implementation of a subsidy would have on efficiency within the economy over the long term. | 1 |
| **Subtotal** | **6** |
| Diagram(s) | |
| * Draws correct and fully labelled diagram that is clearly linked to discussion. | 2 |
| **Subtotal** | **2** |
| **Total** | **8** |